ORDINANCE NO. 2000-4

AUTHORIZING THE ISSUANCE OF NOT TO EXCEED $1,500,000 COUNTY OF WARRICK, INDIANA VARIABLE RATE DEMAND REVENUE BONDS, SERIES 2000 (SPECTRONICS, INC. PROJECT) FOR THE PURPOSE OF MAKING A LOAN TO ASSIST RINE ENTERPRISES, LLC IN THE FINANCING OF COSTS OF "ECONOMIC DEVELOPMENT FACILITIES" WITHIN THE MEANING OF INDIANA CODE 36-7-12; AUTHORIZING THE EXECUTION AND DELIVERY OF A LOAN AGREEMENT PERTAINING TO THE PROJECT AND A TRUST INDENTURE SECURING THE PAYMENT OF THE BONDS; AND AUTHORIZING THE EXECUTION AND DELIVERY OF A BOND PLACEMENT AGREEMENT AND CERTAIN OTHER DOCUMENTS AND ACTIONS IN CONNECTION WITH THE ISSUANCE OF SUCH BONDS.

WHEREAS, the County of Warrick, Indiana (the "Issuer"), a public instrumentality and a public body corporate and politic of the State of Indiana, is authorized and empowered, by virtue of the laws of the State of Indiana, including without limitation, Title 36, Article 7, Chapters 11.9 and 12 of the Indiana Code, as supplemented and amended from time to time (the "Act"), (a) to issue its revenue bonds for the purpose, among others, of making a loan to assist in the financing of costs of acquiring, constructing, equipping, installing and improving "economic development facilities", as defined in section 36-7-11.9-3, as amended, of the Act, (b) to enter into a loan agreement and to provide for revenues from such loan agreement sufficient to pay the principal of and interest and any premium on those revenue bonds, (c) to secure those revenue bonds by a trust indenture, as provided herein, and (d) to enact this Ordinance (this "Bond Legislation") and to enter into the Indenture, the Loan Agreement and the Bond Placement Agreement, each as defined herein, and other documents in connection therewith upon the terms and conditions provided herein and therein; and

WHEREAS, Rine Enterprises, LLC, a limited liability company duly organized and validly existing under the laws of the State of Indiana (the "Borrower"), has requested that Warrick County, Indiana (the "Issuer") issue $1,500,000 of its economic development revenue bonds (the "Bonds"), and lend the proceeds thereof to the Borrower in order to enable the Borrower to undertake and complete the acquisition, construction and equipping of an approximately 30,000 square foot economic development facility to be located at 5622 Vann Road, ~~Newburgh, Indiana,~~ within the boundaries of Warrick County (the "Project");

WHEREAS, the Project facilities will be leased by the Borrower to Spectronics, Inc. (the "Lessee") for use by the Lessee in its metal plating and parts finishing operations;

WHEREAS, the Warrick County Economic Development Commission ("EDC") has rendered its report on the Project (the "Project Report") concerning the proposed financing of the Project for the Borrower, and the Project Report has been sent to the Warrick County Plan Commission for comment;

WHEREAS, the Bonds are to be issued pursuant to a Trust Indenture (the "Indenture"), by and between the Issuer and Fifth Third Bank, Indiana, as trustee (the "Trustee"), in order to obtain funds to lend to the Borrower pursuant to a Loan Agreement (the "Loan Agreement"), between the Issuer and the Borrower, for the purpose of financing or providing reimbursement for the costs of the Project and to pay a portion of the costs of issuance of the Bonds;

WHEREAS, the Loan Agreement provides for the repayment by the Borrower of the loan of the proceeds of the Bonds pursuant to which the Borrower will agree to make payments sufficient to pay the principal, premium, if any, and interest on the Bonds as the same become due and payable and to pay administrative expenses in connection with the Bonds; and

WHEREAS, the EDC, after a public hearing (the "Public Hearing") conducted, following reasonable notice, on August 28, 2000 pursuant to the Act and Section 147(f) of the Internal Revenue Code of 1986, as amended, adopted a Resolution on August 28, 2000, a copy of which has been previously transmitted hereto, pursuant to which it (i) finds that the Project constitutes economic development facilities the financing of which complies with the purposes and provisions of the Act, and that such financing will be of benefit to the health and welfare of the Issuer and its citizens; (ii) approves and recommends the adoption of this form of Bond Legislation by this County Council, (iii) finds that the Project shall not have an adverse competitive effect, and (iv) approves the substantially final forms of the Indenture, the Loan Agreement, the Bond Placement Agreement and the Bonds, and of a preliminary offering document (the "Preliminary Offering Document") in connection with the Bonds (all such forms of documents hereby deemed to collectively constitute the "financing agreement," as referred to in the Act, and sometimes herein referred to as the "Financing Agreement").

NOW, THEREFORE, BE IT ORDAINED by this County Council ("Legislative Authority") of the County of Warrick, in the State of Indiana, that:

Section 1. Definitions. All words and terms used herein as defined words and terms but not otherwise defined herein shall have the respective meanings given to them in the Indenture, the form of which shall be on file with the Warrick County Auditor (the "Fiscal Officer").

Any reference herein to the Issuer or this Legislative Authority, or to any officers, employees or members thereof, shall include those which succeed to their functions, duties or responsibilities pursuant to or by operation of law or who are lawfully performing their functions.

Unless the context shall otherwise indicate, words importing the singular number shall include the plural number, and vice versa, and the terms "hereof," "hereby," "hereto," "hereunder," and similar terms, mean this Bond Legislation.

Section 2. Determinations and Approvals. This Legislative Authority determines that: (i) the Project is an "economic development facility" as defined in the Act; (ii) the issuance and sale of the Bonds, the loan of the net proceeds thereof to the Borrower for the purpose of financing (or providing reimbursement for) some or all of the costs of the Project (including the costs of issuance of the Bonds) and the repayment of such loan by the Borrower, and the leasing to, and operation by, the Lessee of the Project facilities, all in furtherance of the purposes of the Act, will benefit the people of the Issuer and of the State by preserving jobs and employment opportunities and improving the economic welfare of the people of the Issuer and of the State, and (iii) the Public Hearing was conducted by the EDC in compliance with and as required by the Act and Section 147(f) of the Code.

Section 3. Authorization of Bonds. It is hereby determined to be necessary to, and the Issuer shall, issue, sell and deliver, as provided herein and in the Indenture and pursuant to the authority of the Act, the Bonds in the principal amount of not to exceed $1,500,000 for the purpose of making a loan to assist the Borrower in financing the costs of the Project. The Bonds initially shall be issued in fully registered book entry only form and shall be designated "County of Warrick, Indiana Variable Rate Demand Industrial Development Revenue Bonds, Series 2000 (Spectronics, Inc. Project)," or words of similar import. The final principal amount of the Bonds shall be set forth in a Bond Placement Agreement to be entered into among the Issuer, the Borrower and the Placement Agent named therein (the "Bond Placement Agreement").

Section 4. Terms and Execution of the Bonds. The Bonds shall be issued in the forms and denominations and shall be numbered and payable as provided in the Indenture. The Bonds shall be dated as of the date of their initial delivery, shall mature on August 1, 2020, or the next Business Day, if such date is not a Business Day (or such other maturity date as shall be provided for in the Bond Placement Agreement, provided that such other maturity date shall not be later than August 1, 2030), and shall have such terms, bear such interest (not to exceed 10% per annum), and be subject to mandatory and optional tender and redemption as provided in the Indenture. The Issuer hereby directs the Remarketing Agent to fix and establish the interest rate in effect from time to time on the Bonds in the manner and pursuant to the provisions of the Indenture. The Bonds shall be signed by at least two (2) members of the Board of County Commissioners (the "County Commissioners") and the Fiscal Officer in their official capacities (provided that any of those signatures may be facsimiles). In case any official whose signature or a facsimile thereof appears on the Bonds shall cease to be such official before the issuance or delivery of the Bonds, such signature or facsimile thereof shall nevertheless be valid and sufficient for all purposes, the same as if that official had remained in office until after that time.

The form of the Bonds attached as an exhibit to the Indenture and submitted to this meeting, subject to appropriate insertions and revisions in order to comply with the provisions hereof and of the Indenture, is hereby approved, and when the same shall be executed on behalf of the Issuer by the appropriate officers thereof in the manner contemplated hereby and by the Indenture, shall represent the approved form of Bonds.

Section 5. Sale of the Bonds. The Bonds shall be sold to one or more institutional accredited investors identified by the Placement Agent pursuant to the Bond Placement Agreement on the terms and conditions described therein. The County Commissioners and the Fiscal Officer, or their delegate, on behalf of the Issuer, are authorized and directed to make the necessary arrangements with the Placement Agent to establish the date, location, procedure and conditions for the delivery of the Bonds, and to take all steps necessary to effect due execution and delivery of the Bonds under the terms of this Bond Legislation, the Bond Placement Agreement, the Loan Agreement and the Indenture. The County Commissioners or the Fiscal

Officer are further authorized, by execution and delivery of the Bond Placement Agreement by the County Commissioners or the Fiscal Officer, to determine on behalf of the Issuer that the terms of the Bonds, and the sale thereof, all as provided in the aforesaid documents, are in the best interests of the Issuer and consistent with all legal requirements. The proceeds from the sale of the Bonds shall be deposited in the Project Fund created in the Indenture and applied as provided in the Indenture and the Loan Agreement.

Section 6. Arbitrage and Information Reporting Provisions. The Issuer covenants that it will restrict the use of the proceeds of the Bonds in such manner and to such extent as may be necessary so that the Bonds will not constitute arbitrage bonds under Section 148 of the Code, after taking into account reasonable expectations at the time of the delivery of and payment for the Bonds.

The Fiscal Officer or the County Commissioners, either alone or in conjunction with the Borrower or any officer, employee, agent of or consultant to the Borrower, shall give:

(i) an appropriate certificate of the Issuer for inclusion in the transcript of proceedings for the Bonds setting forth the reasonable expectations of the Issuer regarding the amount and use of the proceeds of the Bonds and the facts, estimates and circumstances on which they are based and other facts and circumstances relevant to the tax treatment of interest on the Bonds, as provided by the Borrower, all as of the date of delivery of and payment for the Bonds; and

(ii) the statement setting forth the information required by Section 149(e) of the Code, which shall be based on the relevant information provided by the Borrower.

The Issuer covenants that it (i) will take, or require to be taken, all actions that may be required of it for the interest on the Bonds to be and remain excluded from gross income of the registered owners thereof for federal income tax purposes, and (ii) will not take or authorize to be taken any actions that would adversely affect that exclusion under the provisions of the Code. The Fiscal Officer, the County Commissioners and other appropriate officers are hereby authorized and directed to take any and all actions and make or give reports and certifications, as may be appropriate to assure such exclusion of that interest.

Section 7. Authorization of Loan Agreement, Indenture, Bond Placement Agreement, and All Other Documents to be Executed by the Issuer. In order to better secure the payment of the principal of, premium, if any, and interest on the Bonds as the same shall become due and payable, and to provide for the financing of the Project, the County Commissioners or the Fiscal Officer are authorized and directed to execute, acknowledge and deliver, in the name and on behalf of the Issuer, the Loan Agreement, the Indenture and the Bond Placement Agreement, in substantially the forms submitted to and now on file with the Issuer which are hereby approved, with such changes therein not inconsistent with this Bond Legislation and not substantially adverse to the Issuer as may be permitted by the Act and approved by the officers executing the same on behalf of the Issuer. The approval of such changes by such officers, and that such are not substantially adverse to the Issuer, shall be conclusively evidenced by the execution of the Loan Agreement, the Indenture and the Bond Placement Agreement by such officers.

The Issuer consents to the use and distribution of the Preliminary Offering Document, in substantially the form submitted to and now on file with the Issuer, in connection with the issuance, sale and delivery of the Bonds. However, the Issuer has not confirmed, and assumes no responsibility for, the accuracy, sufficiency or fairness of any statements in the Preliminary Offering Document, any other written materials used in connection with the offer and sale of the Bonds or in any way relating to the Project, the Borrower, the Bank or the Placement Agent. The Issuer consents to the use and distribution of a final offering document in substantially the form of the Preliminary Offering Document.

The County Commissioners and the Fiscal Officer are each separately authorized to take any and all actions and to execute such financing statements, assignments, certificates and other instruments that may be necessary or appropriate, in the opinion of Squire, Sanders & Dempsey L.L.P., as Bond Counsel, in order to effect the issuance of the Bonds, the financing of the Project and the intent of this Bond Legislation.

Section 8. Covenants of Issuer. In addition to other covenants of the Issuer in this Bond Legislation, the Issuer further covenants and agrees as follows:

(a) Payment of Principal, Premium and Interest. The Issuer will, solely from the sources herein or in the Indenture provided, pay or cause to be paid the principal of, premium, if any, and interest on each and all Bonds on the dates, at the places and in the manner provided herein, in the Indenture and in the Bonds.

(b) Performance of Covenants, Authority and Actions. The Issuer will at all times faithfully observe and perform all agreements, covenants, undertakings, stipulations and provisions contained in the Bonds, the Loan Agreement, the Bond Placement Agreement and the Indenture, and in all proceedings of the Issuer pertaining to the Bonds. The Issuer warrants and covenants that it is, and upon delivery of the Bonds will be, duly authorized by the laws of the State of Indiana, including particularly and without limitation the Act, to issue the Bonds and to execute the Loan Agreement, the Bond Placement Agreement and the Indenture, and all other documents to be executed by it, to provide for the security for payment of the principal of, premium, if any, and interest on the Bonds in the manner and to the extent herein and in the Indenture set forth; that all actions on its part for the issuance of the Bonds and execution and delivery of the Loan Agreement, the Bond Placement Agreement, the Indenture and all other documents to be executed by it in connection with the issuance of the Bonds, have been or will be duly and effectively taken; and that the Bonds will be valid and enforceable special obligations of the Issuer according to the terms thereof.

Section 9. Transcript of Proceedings. The Fiscal Officer or other appropriate official of the Issuer shall furnish to the Placement Agent a true transcript of proceedings, certified by the Fiscal Officer or other officer, of (i) all proceedings had with reference to the issuance of the Bonds and (ii) any other information from the records of the Issuer which may be necessary or appropriate to determine the regularity and validity of the issuance of the Bonds.

Section 10. No Debt or Tax Pledge. Anything in the Bond Legislation, the Bonds or the Indenture to the contrary notwithstanding, the Bonds do not and shall not represent or constitute a debt or pledge of the faith and credit of the Issuer, and the Bonds shall contain a statement to that effect and to the effect that the Bonds are payable solely from the Revenues and are not secured by an obligation or pledge of any moneys raised by taxation. Nothing herein or in the Indenture, however, shall be deemed to prohibit the Issuer, of its own volition, from using to the extent that it is authorized by law to do so, any other resources for the fulfillment of any of the terms, conditions or obligations of the Indenture, the Bond Legislation or any of the Bonds.

Section 11. The Issuer retains the law firm of Squire, Sanders & Dempsey L.L.P. ("SS&D") to provide legal services in connection with the authorization, sale, issuance and delivery of the Bonds. Those legal services shall be in the nature of legal advice and recommendations as to the documents and the proceedings in connection with the security, issuance and sale of the Bonds, and the rendering at delivery of related legal opinions. In providing those legal services, as an independent contractor and in an attorney-client relationship, SS&D shall not exercise any administrative discretion on behalf of the Issuer in the formulation of public policy, expenditure of public funds, enforcement of laws, rules and regulations of the State or any political subdivision, or the execution of public trusts. For those legal services provided through delivery of the Bonds, SS&D shall be paid a reasonable fee as agreed upon between SS&D and the Borrower and, in addition to that fee, SS&D shall also be reimbursed for actual out-of-pocket expenses (including, but not limited to, long distance telephone, travel and duplicating expenses) incurred in providing those legal services. Those fees and expenses shall be paid solely from the proceeds of the sale of the Bonds, by the Placement Agent as part of the purchase price therefor, or by the Borrower, and if the Bonds are for any reason not delivered, shall be paid by the Borrower.

Section 12. The substantially final forms of the documents comprising the Financing Agreement presented herewith are hereby approved, shall be inserted in and retained as part of the minutes of this Legislative Authority. In compliance with Indiana Code Title 36, Article 1, Chapter 5, Section 4, two (2) copies of the Financing Agreement shall be on file in the office of the Fiscal Officer for public inspection.

Section 13. This Legislative Authority hereby finds and determines that all formal actions relative to the adoption of this Bond Legislation were taken in an open meeting of this Legislative Authority, and that all deliberations of this Legislative Authority and of its committees, which resulted in those formal actions, were in meetings open to the public in compliance with the law.

Section 14. This Ordinance shall be in full force and effect from and after its passage.

Passed and adopted this 1st day of August, 2000.

COUNTY COUNCIL OF WARRICK COUNTY, INDIANA

Chris Horn

Chris Horn

Raymond Bracher

Raymond Bracher

Art Callis

Art Callis

Ray McIntyre

Ray McIntyre

Gary Meyer

Tim Mosbey

Tim Mosbey

Greg Richmond

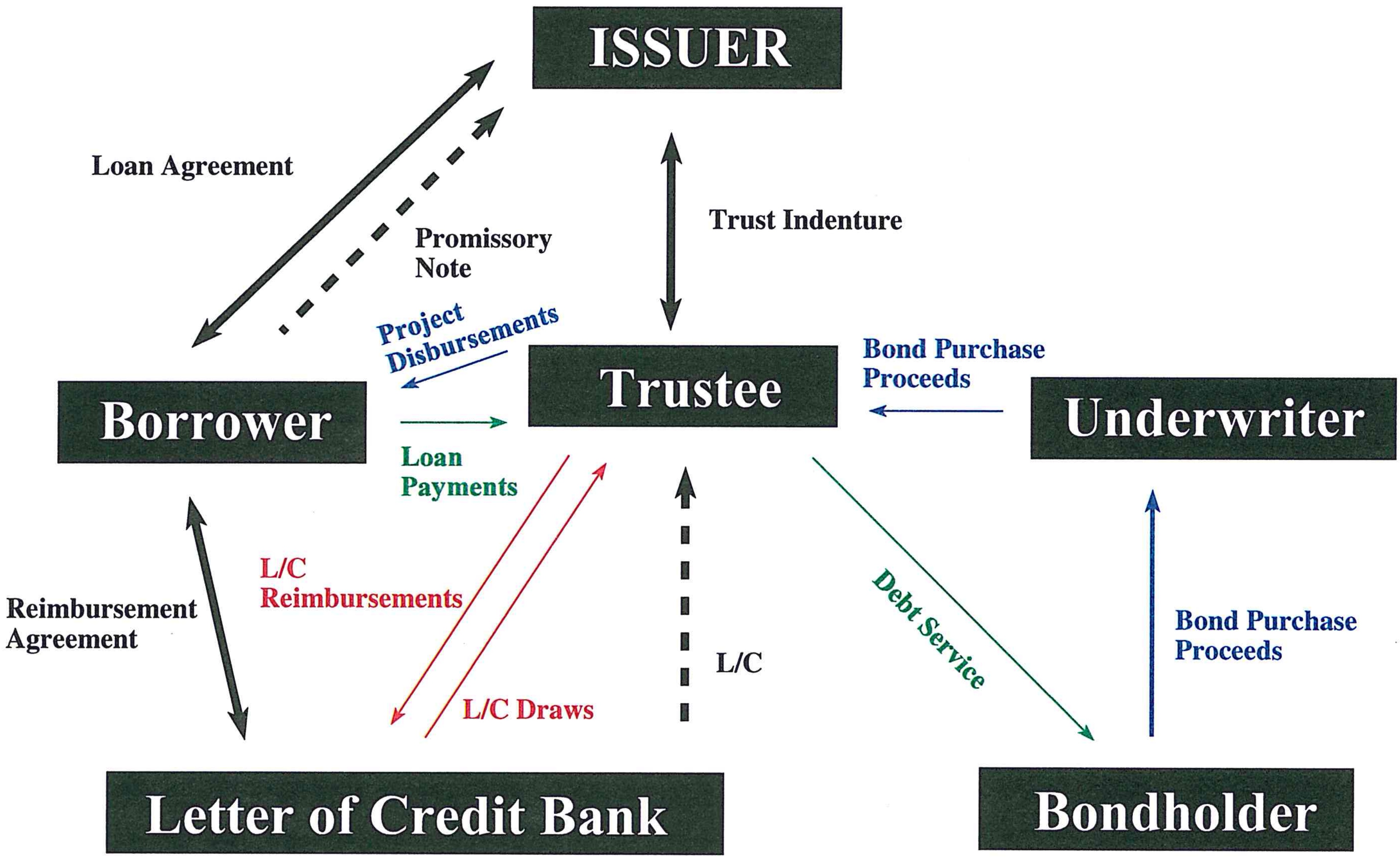
Greg Richmond

Attest:

Richard J. Kixmiller

Warrick County Auditor

Library: Cincinnati; Document #: 2494v2



TYPICAL BANK ENHANCED IDB STRUCTURE

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July 22, 2000

To: Warrick County Council Members

From: Bond Counsel

Re: $1,500,000 County of Warrick, Indiana Variable Rate Demand Industrial Development Revenue Bonds, Series 2000 (Spectronics, Inc. Project)

Gentlemen:

As you are aware, the Ordinance in connection with the captioned Bonds is on the agenda for the August 1, 2000 County Council meeting. In order to assist you in your consideration of that Ordinance, attached hereto for your review are the following items:

1. A draft of the Ordinance;
2. An outline entitled Tax-Exempt Financing; and
3. A diagram illustrating the relationships of the various parties and flow of funds in a bond transaction.

The Tax-Exempt Financing outline is a summary of, among other things, the pros and cons of financing economic development facilities through the issuance of bonds, the impact of bond issues on the issuer of the bonds, the different parties that participate in a bond issue and the mechanics involved in issuing bonds. Although this outline was not prepared specifically for the captioned Project and does not provide specifics as to Indiana law (and, consequently, should not be relied upon to the exclusion of advice from your counsel), you may find it helpful as a tool for better familiarizing yourself with the concepts involved.

Best regards,

Tim Coyle

Timothy L. Coyle

Attachments
Copy: Larry Grimes, Esq.

TAX-EXEMPT FINANCING

I. Introduction

a. Municipal Bonds - Description. A municipal bond is a security (bond, note, bond anticipation note, tax anticipation note, revenue anticipation note, etc.) issued by a state, county, city, township or other local governmental unit or a public agency, the interest on which generally is exempt from federal, and often state and local, income taxation.

b. General Obligation vs. Industrial Development Bonds. "General Obligation" (or "GO") municipal bonds are securities backed by the full faith and credit of a political subdivision (state or local government), meaning a pledge to pay from taxation and other general governmental revenues. GO bond proceeds are used to finance such governmental purpose projects as stadiums, roads, bridges, town halls, fire trucks, etc.

"Qualified private activity" or "industrial development (IDBs)" municipal bonds are a means of financing the acquisition, construction and equipping of certain qualifying facilities, such as manufacturing plants (see discussion on qualified small issue bonds, below), airports, multifamily housing, single-family housing, docks and wharves, mass commuting facilities, sewage disposal facilities, solid waste disposal facilities, qualified hazardous waste facilities, facilities for the furnishing of water and facilities for the local furnishing of electric energy or gas.

c. Tax-Exempt IDBs. As discussed at II below, several different categories of projects qualify for tax-exempt IDB financing.

d. Taxable IDBs. Projects that either do not qualify for tax-exempt IDB financing or that qualify but for which an allocation of state volume cap (see discussion at IV. c. below) is not obtained, may nevertheless be a candidate for IDB financing, but on a taxable basis. In addition, closing costs that exceed the amount that is permitted to be paid out of tax-exempt bond proceeds can be financed through the issuance of a "taxable tail" series of IDBs. (See discussion of interest rate differentials at II. b., below.)

e. Corporate Taxable Notes as an Alternative to IDBs. In those situations where no or insignificant advantages are to be obtained with IDB financing, corporate taxable notes may provide an attractive alternative to conventional financing. In this type of financing, rather than the obligations being issued by a governmental entity and the proceeds loaned to a private concern, the private concern issues its own corporate paper and uses the proceeds to finance the project. Otherwise, the transaction is very similar to IDB financing.

II. Tax-Exempt IDBs

a. Qualifying Projects. Projects qualifying for tax-exempt IDB financing fall into one of the following internal revenue code categories of "qualified private activity bonds":

1. Qualified Small Issue Bonds (IRC § 144(a)) - i.e., IDBs the proceeds of which are used to finance the acquisition, construction and/or equipping of qualifying manufacturing facilities. Notable rules and requirements include the following:

(a) "Manufacturing facilities" is broadly defined to include any facility which is used in the manufacturing, production or processing of tangible personal property, thereby encompassing many activities not generally thought of as manufacturing (e.g., food processing plants).

(b) May finance buildings (or additions/improvements thereto) and equipment (i.e., property of a character subject to the allowance for depreciation) and land; land component must be less than 25% of net proceeds of issue; equipment and buildings may be financed separately, i.e., equipment only or building only.

(c) May not finance working capital, inventory, motor vehicles required to be licensed by State, raw materials, small tools, supplies, or accounts receivable.

(d) Acquisition of existing building may be financed only if an amount equal to at least 15% of the cost of acquisition of the building (and equipment therein) is spent within two years for "rehabilitation"; cost of "rehabilitating" equipment (but not new equipment) counts toward total 15%; used equipment can only be financed in conjunction with financing the acquisition of the building in which the used equipment is located - i.e, must be part of an integrated facility.

(e) Stock acquisition may be treated as acquisition of underlying assets.

(f) Refinancing (or "refunding") of existing projects that were previously financed with IDBs is permitted even if the project is not of a type that would qualify under existing law for tax-exempt financing.

(g) <u>$10 million capital expenditure limitation</u> - the amount of the bond issue <u>plus</u> all other capital expenditures paid or incurred (within the same incorporated municipality as the project or located in the same county as the project outside of any incorporated municipality) by the Borrower and "related persons" during a six-year period commencing three years prior to the date of issuance of the bonds and ending three years after such date may be an amount up to, but not exceeding $10,000,000; provided, however, that if the principal amount of the bonds does not exceed $1,000,000, the $10 million capital expenditure limitation does not apply.

(h) $40 million limitation - aggregate amount of all outstanding IDBs cannot exceed $40 million.

(i) 95% of bond proceeds must be spent for "hard costs" -- land, building and equipment; the remaining 5% (i.e., "bad money") can be used to pay costs of issuance and other closing costs.

(j) Not more than 2% of proceeds may be used for "costs of issuance" - i.e., costs unique to bond financing (e.g., Bond Counsel fees, Underwriter and Underwriter's Counsel fees, Issuer and Issuer Counsel fees and Trustee acceptance fees).

(k) The balance of the 5% "bad money" can be used to pay closing costs that are not unique to bond financing - e.g., letter of credit and other bank imposed fees,

(l) Term of bonds -- average maturity of the bonds must not exceed 120% of average reasonably expected economic life of facilities being financed.

(m) Must receive allocation of volume cap.

(n) IRC § 148 imposes strict restrictions on investment of bond proceeds designed to insure that such investments do not produce a yield over the term of the bonds which is materially higher than the yield on the bonds.

2. Exempt Facility Bonds (IRC § 142)

(a) "Exempt facilities" include airports, docks and wharves, mass commuting facilities, facilities for the furnishing of water, sewage facilities, solid waste disposal facilities and qualified hazardous waste facilities.

(b) All of the restrictions/limitations described above for qualified small issue bonds apply equally to exempt facility bonds <u>except</u> for the $10 million capital expenditure limitation and the $40,000,000 limitation.

(c) With respect to facilities having both a solid waste disposal function and another function (e.g., manufacturing), that portion of the costs of the facility attributable to the solid waste disposal function can be financed with bond proceeds.

3. Qualified 501(c)(3) Bonds (IRC § 145) - IDBs where the Borrower/obligor is a validly organized and existing 501(c)(3) organization.

(a) Qualifying 501(c)(3) projects include hospitals, congregate care facilities, school facilities.

(b) The project purposes must be non-sectarian (e.g., although a church cannot be financed on a tax-exempt basis, a church-owned congregate care facility can, as can those portions of, for example, a catholic high school dedicated to non-sectarian uses, such as science buildings and gymnasiums.

(b) Qualified 501(c)(3) bonds do not require an allocation of volume cap.

4. Qualified Mortgage and Qualified Veteran's Mortgage Revenue Bonds (IRC § 143).

5. Qualified Student Loan Bonds (IRC § 144(b)).

6. Qualified Redevelopment Bonds (IRC § 144(c)).

b. <u>Advantages of IDB Financing</u>

1. Lower effective interest rate - interest rate differential between tax-exempt and similarly rated conventional corporate bonds has been as much as 400 basis points per annum in 1980's, usually 150-300 basis points depending on strength of underlying credit and principal amount of the bonds.

- weekly variable tax-exempt interest rate has averaged about 3.70-3.80% with strong letter of credit, currently at about 4%; letter of credit fee adds 75 to 125 basis points; remarketing fees, Trustee fees and letter of credit draw fees add 25-30 basis points; up front costs, amortized over life of bonds adds 10-25 points; total "all-in" rate currently about 5-5.75%, compared to conventional rates for Borrower's with strong credits of about 7-7.75% (based on 30-day LIBOR plus 150-200 basis points)

- additional 150-175 basis points for fixed rate bonds
- additional 175-200 basis points for taxable bonds and taxable corporate notes

2. Permits 100%+ financing and provides a complete financing package (i.e, a single bond issue can be used to finance costs of land, construction of buildings and acquisition and installation of equipment, as well as to cover most if not all costs of issuing the bonds, effectively spreading such costs over the life of the bonds).

3. Allows Borrower greater flexibility in negotiating general terms of the financing - e.g., interest rate modes, maturity dates (generally, longer terms than for conventional financing), repayment schedules and prepayment options, and often times less restrictive negative covenants than are available with conventional financing. For example:

   - May be fixed or variable interest rate
   - A variable interest rate may "float" in various modes. For example, Borrower may have ability to choose an initial "weekly" interest rate mode and then convert back and forth between a monthly, quarterly, semi-annual, annual, three-year, five-year, ten year or fixed rate. An issue with various modes is usually called a "multi-modal lower floater". Bondholders have "puts" or "tender" options each time the interest rate is adjusted within a mode or upon conversion to a different mode. Upon exercise of a put option, the bonds are tendered to and remarket by a remarketing agent.

- Principal repayment can be level principal amortization, ascending amortization, or bullet (balloon) with entire principal balance due at end of term, in each case with optional redemption provisions, allowing the obligor to prepay the Bonds (sometimes at a premium).
- Maturity may be virtually any length desired, within state law limitations and Internal Revenue Code parameters discussed below; Ohio law permits 30-year term.

4. Enables the Borrower to develop a positive working relationship with municipal officials, often times beneficial for future Borrower/municipality dealings.

c. Disadvantages of IDB Financing

1. Unavailability of volume cap (however, in many situations it makes economic sense for the Borrower to finance the Project with taxable IDBs that, by their terms, are convertible to tax-exempt IDBs upon later receipt of volume cap).
2. Relatively high costs of financing (however, as discussed above, such costs will be spread over the life of the bonds to the extent paid with bond proceeds); costs to finance vary with size, structure and complexity of issue from 1 1/2% to 2 1/2%; project should be at least $700,000 - $1,000,000 to be economically feasible
3. The process can be time consuming and complicated (however, Bond Counsel and/or Underwriter will generally see to it that

Borrower experiences little if any additional aggravation and can generally complete the entire process within 90 days.

4. More paperwork than Borrower would normally expect to see.

5. Prevailing wage rates must be paid to workers for construction projects in Ohio and certain other states.

III. Participants in IDB Financing

a. Borrower/Obligor (and Borrower's Counsel). The eligible participant which is to benefit from the financing; usually, but not always, the principal user of the facility to be financed. Borrower's Counsel plays an important role in:

1. Recognizing opportunity for IDB financing;

2. Assisting Borrower in negotiating security/collateral requirements to be imposed by Letter of Credit Bank and review of bank documents (Reimbursement Agreement and, when required by the Letter of Credit Bank, mortgage, guaranties, assignment of rents, security agreements, financing statements and other security documents);

3. Reviewing bond documents (Trust Indenture, Loan/Lease Agreement, Bond Purchase Agreement and Tax Regulatory Agreement, and, with "put" IDBs, Remarketing Agreement and Tender Agreement). With respect to document review, focus particularly on applicable financial and other covenants, bond terms (including call/prepayment provisions and premiums, amortization/sinking fund requirements and interest rate modes and determination), provisions relating to removal/substitution of Trustee and Remarketing Agent, remarketing mechanisms (if "put" bonds), and the opinion to be delivered by Borrower's Counsel.

b. Issuer (and Issuer's Counsel). The state, county, city, township or other governmental unit or public agency authorized by statute to issue IDB. Upon issuing IDBs, the Issuer assigns its rights under Loan Agreement and promissory note of Borrower, if any, to the Trustee, thereby effectively disappearing from the transaction after "lending its name" in order that interest will be tax exempt - hence the reference to "conduit financing."

c. Underwriter/Placement Agent (and Underwriter's/Placement Agent's Counsel). An investment banking firm or financial institution that works closely with the Borrower and the Letter of Credit Bank to structure the financing and that either ultimately purchases the bonds for re-sale to the public (in the case of an underwriter) or privately places the bonds (in the case of a placement agent). Regarding the sale of bonds:

- Bonds may be rated or unrated.
- Public sale or private placement.
- Exempt from Securities Act and Trust Indenture Act. Subject to Rule 15c2-12 under 1934 Act, and Rule 10b-5 always applicable.

d. Bondholder. The investor (more often than not an institutional investor) to whom the Underwriter/Placement Agent ultimately sells the Bonds.

e. Letter of Credit Bank (and Bank Counsel). Financial institution that establishes, generally, an irrevocable, direct-pay letter of credit in favor of Trustee securing payment of principal of, and premium, if any, and interest on the Bonds. Like Borrower's Counsel, Letter of Credit Bank's Counsel plays an important role in:

1. Negotiating terms on which the letter of credit is to be issued, just as if Borrower were borrowing conventionally (same credit approval considerations

that apply to Bank's willing to extend conventional loan will apply to its decision to issue its letter of credit);

2. Drafting bank documents, including Reimbursement Agreement, Letter of Credit and security documents.

f. Corporate Trustee (and Trustee's Counsel). Corporate trust department to which the Issuer assigns all its rights and interests under the Loan Agreement; responsible primarily for investing and disbursing bond proceeds, collecting loan/lease payments from Borrower and paying debt service on the Bonds.

g. Bond Counsel. - law firm with expertise in the field of municipal bonds; prepares all legislation (resolutions, ordinances, notices, etc.) and shepherds it through governmental entity; prepares all bond documentation, including drafts of opinions for all counsel; renders approving opinion as to validity of issuance of bonds and as to tax exemption.

IV. IDB Financing - The Process

a. Preliminary Discussions. Borrower introduced to IDBs as a financing alternative; Bond Counsel makes initial determination of qualification of project for tax-exempt financing; Borrower representative initiates discussions with prospective issuing authority and, where required, the public agency established by the issuing authority to evaluate proposed economic development projects.

b. Inducement Resolution. Bond Counsel assists the Issuer in preparing an "inducement resolution" stating the Issuer's conditional intent to issue IDBs to assist Borrower in financing the project; inducement resolution then considered and adopted by Issuer and, where required, the Issuer's designated economic development agency at regular or special meeting. Date of adoption of inducement resolution is important to the Borrower in that only project expenditures made no earlier than 60 days prior to such date can be "reimbursed" out of IDB proceeds.

c. Request Allocation of IDB "Volume Cap" from Responsible State Agency. Federal law (IRC § 146) restricts the amount of most categories of tax-exempt IDBs (not qualified 501(c)(3), veterans' mortgage or certain exempt facility bonds, or refunding bonds) that can be issued each year in any given state (currently the greater of $150 million or $50 per capita); most states currently experiencing greater demand for volume cap than they have supply; Issuer/Borrower completes and submits application for volume cap; each state has its own procedures and requirements for Borrower to follow/meet in order to receive allocation of volume cap; many states evaluate projects based on such economic criteria as number of jobs to be created or preserved, total capital expenditures, level of wages to be paid, whether the county in which the project is to be located is economically depressed relative to other counties .

d. Document Preparation and Review. For typical Letter of Credit enhanced floating rate bond Issue:

1. Underwriter's Counsel prepares preliminary (and final) offering document;

2. Borrower, Issuer and Underwriter enter into Bond Purchase Agreement, pursuant to which Issuer agrees to issue its bonds for the benefit of the Borrower and the Underwriter agrees to purchase the bonds for resale to the public (in the case of an underwriting of the issue);

3. Borrower enters into Loan/Lease Agreement with Issuer, under the terms of which loan/lease payments are to be made in amounts equal to debt service (principal, premium, if any, and interest on bonds). "Loan" structure is

most common in most states (e.g., Ohio). In others, a "lease" structure, whereby the Issuer takes title to the project facilities and leases them to the Borrower/Lessee, is either desirable (e.g., Kentucky -in order to obtain exemption from ad valorem taxation) or required (e.g., Nebraska).

4. Issuer enters into Trust Indenture with corporate trustee which holds and disburses bond proceeds to Borrower. Issuer assigns note, if any, of Borrower to Trustee and also assigns its rights under Loan Agreement - by so doing, Issuer has effectively disappeared from the transaction after "lending its name" in order that interest will be tax-exempt. Transaction at this point closely resembles a conventional loan. Called a "conduit" financing because governmental unit acts as a conduit.

5. Borrower enters into Reimbursement Agreement with Letter of Credit Bank, pursuant to which Bank agrees to issue its Letter of Credit in favor of the Trustee and the Borrower agrees to reimburse Bank for draws on the Letter of Credit.

6. Borrower enters into Remarketing Agreement with Underwriter, acting in the capacity of Remarketing Agent, pursuant to which Remarketing Agent agrees to remarket "put" bonds that have been properly tendered by the Bondholders.

7. Borrower, Issuer and Trustee enter into Tax Regulatory Agreement pursuant to which each party obligates itself to comply with various tax requirements for ensuring that the bonds remain tax-exempt.

e. Public Hearing. Federal tax law requires that the general public have the right to comment on the proposed IDB financing at a public hearing; notice of the public hearing must be published at least 14 days prior to the hearing.

f. Approving Bond Resolution/Ordinance. Issuer adopts final resolution/ordinance approving the bond documents, which resolution/ordinance sets forth the terms and conditions of the bonds and their sale, and authorizes issuance of the bonds for the specified purpose and the loan of the bond proceeds (or the lease of the project facilities, where appropriate) to the Borrower.

g. Bond Counsel's Approving Opinion Delivered and IDBs Issued. Upon release by Bond Counsel of opinion as to the validity of the issuance of the bonds and their tax-exempt status and, in credit enhanced deals, by the Letter of Credit Bank of the Letter of Credit, the IDBs are sold and the proceeds therefrom, less any amounts paid towards costs of issuance and other closing costs, are deposited with the Trustee for eventual disbursement to and use by the Borrower to pay costs of the project.

h. Post-Closing Matters. Bond Counsel prepares and submits any reports required to be submitted to the Internal Revenue Service (i.e., Form 8038), the state agency responsible for allocating volume cap (e.g., Notice of Issuance) and other state agencies as required; Underwriter's Counsel delivers final Official Statement; Trustee disburses bond proceeds as requested from time to time by Borrower; Borrower makes loan payments to Trustee and Trustee makes principal, premium, if any, and interest payments to Bondholders.

WARRICK COUNTY ECONOMIC DEVELOPMENT COMMISSION
RESOLUTION NO.: 2000-2

WHEREAS, relieving conditions of unemployment and underemployment, encouraging economic development of the community to reduce the evils associated with unemployment and underemployment, and diversifying economic development and increasing job opportunities are essential to the health, safety and welfare of the County of Warrick, Indiana (the "Issuer") and its citizens;

WHEREAS, the Issuer is authorized by IC 36-7-11.9 and 12 (collectively, the "Act") to issue revenue bonds for the purpose of, among others, assisting in financing the costs of acquiring, constructing and equipping economic development facilities;

WHEREAS, Rine Enterprises, LLC (the "Borrower") has requested that the Issuer issue its economic development revenue bonds in the principal amount of not to exceed $1,500,000 (the "Bonds") and loan the proceeds thereof to the Borrower to assist the Borrower in the financing of the costs of acquiring, constructing and equipping an approximately 30,000 square foot economic development facility (the "Project") to be located at 5622 Vann Road, Newburgh, Indiana, within the boundaries of the Issuer; and

WHEREAS, the Project facilities will be owned by the Borrower and leased by the Borrower to Spectronics, Inc. ("Spectronics") for use by Spectronics in its metal plating and parts finishing operations.

BE IT RESOLVED BY THE WARRICK COUNTY ECONOMIC DEVELOPMENT COMMISSION THAT:

Section 1. It finds that the proposed financing of the Project for the Borrower through the issuance of the Bonds and the loan of the proceeds of the Bonds to the Borrower complies with the purposes and provisions of the Act and will be of benefit to the health and welfare of the Issuer and its citizens.

Section 2. It has reviewed the attached Economic Impact Report prepared pursuant to I.C. 36-7-12-23 (the "Report"), which Report is incorporated herein by reference, and hereby: (a) finds, based upon the evidence presented, that (i) there will be no additional burden upon the taxpayers of the Issuer as a result of the financing or operation of the Project, (ii) the total costs of financing and completing the Project will be approximately $2,000,000, and (iii) the completion and operation of the Project is expected to increase jobs and job opportunities and employment diversification within the community; (b) adopts the Report; and (c) directs the Secretary of this Commission to immediately submit the Report to the Executive Director of the Warrick County Planning Commission.

Section 3. It has considered whether the Project will have an adverse competitive effect on any similar facilities already under construction or in operation in the County of Warrick, Indiana, and now makes the following special findings of fact based upon the evidence presented:

(a) No member or members of the public or competitor presented evidence sufficient to establish that the financing, completion or operation of the Project would have a material adverse competitive effect in any respect; and

(b) In the absence of such sufficient evidence, the benefits to the public from the creation of jobs and payroll to be generated by the completion and operation of the Project clearly indicate that the financing of the Project should be supported by the issuance of the Bonds.

Section 4. The substantially final forms of the Loan Agreement, the Trust Indenture and the Bond Placement Agreement, and a proposed form of Ordinance for the County Council of the Issuer, each in connection with the Bonds and as presented to this meeting, are hereby approved. Also presented to this meeting in connection with the Bonds and hereby approved is a form of Preliminary Private Placement Memorandum; provided, however, that this Commission has not participated in the preparation of such Preliminary Private Placement Memorandum and has not verified the accuracy of the information contained therein, and, accordingly, this Commission's approval herein of such Preliminary Private Placement Memorandum does not constitute approval by this Commission of the information contained therein or a representation by this Commission as to the completeness or accuracy of the information contained therein.

Section 5. The Secretary of this Commission shall initial and then insert a copy of the forms of documents approved by this Resolution in the minute book of this Commission.

Section 6. A copy of this Resolution and the other documents approved by this Resolution and the proposed form of Ordinance shall be presented in their substantially final form by the Secretary of this Commission to the County Auditor of the Issuer for presentation by said County Auditor to the County Council of the Issuer.

Adopted this 22nd day of August, 2000.

WARRICK COUNTY ECONOMIC
DEVELOPMENT COMMISSION

Carol Montgomery

Carol Montgomery, Commissioner and
President of the Commission

Richard L. Wilder

Richard L. Wilder, Commissioner and
Secretary of the Commission

Randall Pemberton

Randall Pemberton, Commissioner

Library: Cincinnati; Document #: 2527v2

ECONOMIC IMPACT REPORT

OF THE WARRICK COUNTY ECONOMIC DEVELOPMENT COMMISSION

PURSUANT TO I.C. 36-7-12-23

Rine Enterprises, LLC (the "Borrower") has presented to the Warrick County Economic Development Commission (the "Commission") information concerning its intention to acquire, construct and equip an approximately thirty thousand (30,000) square foot economic development facility (the "Facility"), which Facility will be leased to Spectronics, Inc. ("Spectronics") for use by Spectronics in its technologically advanced plating and parts finishing operations (the "Project"). It is proposed that the Facility will be financed in part through the issuance by Warrick County of up to $1,500,000 of its revenue bonds, the proceeds of which would be loaned to the Borrower. The Facility will be located within the geographical boundaries of the Warrick County, Indiana, at 5622 Vann Road, Newburgh, Indiana 47630. This and the following information with respect to the Project is provided pursuant to I.C. 36-7-12-23:

(1) A brief description of the Project (the "Project Description") is attached hereto and incorporated herein by reference as Appendix A.

(2) It is anticipated that there will be no new lighting, water or sewer lines, or school space requiring the expenditure of public funds. Nor will the Project result in any additional need fire or police protection, water and sewer or other governmental services. New roads will not need to be constructed to service the Project.

(3) It is estimated that the total costs of the Project will be $2,000,000.

(4) At capacity, it is estimated that the Project will result in the creation of up to 61 permanent full time jobs (45 of which would be relocated from Spectronics' current Evansville, Indiana site) with an annual payroll, including benefits, of approximately $1,975,000.

The Secretary of the Commission will promptly submit this report to the Executive Director of the Warrick County Planning Commission.

Dated: August __, 2000

Carol Montgomery

Carol Montgomery, Commission President

Attest:

Richard Wilder

Richard Wilder, Secretary

APPENDIX A

Spectronics, Inc. Project
Warrick County, Indiana

Project Description

The Borrower, Rine Enterprises, LLC, will own the approximately 30,000 square foot Facility, which Facility will be leased to and operated by Spectronics, Inc. The Facility will be steel sided with a brick-faced office area.

Spectronics, Inc. was founded and incorporated in March, 1986. Spectronics' strategy was and is to serve the metal finishing needs of electronics and other high technology applications. Currently, 45 people, 7 of whom are professionals, are employed by Spectronics in its leased facilities at 6608 E. Morgan Avenue in Evansville, Indiana. Upon transferring its existing operations to the planned Facility, Spectronics' production capacity will be expanded. It is anticipated that 16 new jobs will be created at full capacity.

Spectronics engages in operations with its products being marketed primarily to customers in the electronics, automotive, and telecommunications industries. In most cases, Spectronics receives unplated parts from its customers and plates them with nickel, gold, silver or other materials. The purpose of the plating added at Spectronics' facilities is to provide protection and/or a surface suitable for attachment of electronic silicon chips.

SQUIRE SANDERS | LEGAL COUNSEL WORLDWIDE

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Direct Dial: +1.513.361.1280
TCoyle@ssd.com

July 22, 2000

VIA OVERNIGHT DELIVERY

Ms. Crystal Prowless
Chief Deputy, Auditor's Office
One County Square, Suite 240
Boonville, Indiana 47601

Re: $1,500,000 County of Warrick, Indiana Variable Rate Demand Industrial Development Revenue Bonds, Series 2000 (Spectronics, Inc. Project)

Dear Crystal:

I understand that you will be distributing packets to the Council members on Monday afternoon in connection with the Council meeting scheduled for August 1st. Enclosed for inclusion in those packets, and to make available to other interested persons, please find several sets of materials in connection with the captioned Project.

If you have any questions, please do not hesitate to contact me. Thank you in advance for your assistance in this matter.

Best regards,

Tim Coyle

Timothy L. Coyle

Enclosures

Tabled
8-1-00

Copy: Larry Grimes, Esq.
Mike Phillips, Esq.
Mr. Gary Gentry

approved 9-7

TAX-EXEMPT FINANCING

I. Introduction

a. Municipal Bonds - Description. A municipal bond is a security (bond, note, bond anticipation note, tax anticipation note, revenue anticipation note, etc.) issued by a state, county, city, township or other local governmental unit or a public agency, the interest on which generally is exempt from federal, and often state and local, income taxation.

b. General Obligation vs. Industrial Development Bonds. "General Obligation" (or "GO") municipal bonds are securities backed by the full faith and credit of a political subdivision (state or local government), meaning a pledge to pay from taxation and other general governmental revenues. GO bond proceeds are used to finance such governmental purpose projects as stadiums, roads, bridges, town halls, fire trucks, etc.

"Qualified private activity" or "industrial development (IDBs)" municipal bonds are a means of financing the acquisition, construction and equipping of certain qualifying facilities, such as manufacturing plants (see discussion on qualified small issue bonds, below), airports, multifamily housing, single-family housing, docks and wharves, mass commuting facilities, sewage disposal facilities, solid waste disposal facilities, qualified hazardous waste facilities, facilities for the furnishing of water and facilities for the local furnishing of electric energy or gas.

c. Tax-Exempt IDBs. As discussed at II below, several different categories of projects qualify for tax-exempt IDB financing.

d. Taxable IDBs. Projects that either do not qualify for tax-exempt IDB financing or that qualify but for which an allocation of state volume cap (see discussion at IV. c. below) is not obtained, may nevertheless be a candidate for IDB financing, but on a taxable basis. In addition, closing costs that exceed the amount that is permitted to be paid out of tax-exempt bond proceeds can be financed through the issuance of a "taxable tail" series of IDBs. (See discussion of interest rate differentials at II. b., below.)

e. Corporate Taxable Notes as an Alternative to IDBs. In those situations where no or insignificant advantages are to be obtained with IDB financing, corporate taxable notes may provide an attractive alternative to conventional financing. In this type of financing, rather than the obligations being issued by a governmental entity and the proceeds loaned to a private concern, the private concern issues its own corporate paper and uses the proceeds to finance the project. Otherwise, the transaction is very similar to IDB financing.

II. Tax-Exempt IDBs

a. Qualifying Projects. Projects qualifying for tax-exempt IDB financing fall into one of the following internal revenue code categories of "qualified private activity bonds":

1. Qualified Small Issue Bonds (IRC § 144(a)) - i.e., IDBs the proceeds of which are used to finance the acquisition, construction and/or equipping of qualifying manufacturing facilities. Notable rules and requirements include the following:

(a) "Manufacturing facilities" is broadly defined to include any facility which is used in the manufacturing, production or processing of tangible personal property, thereby encompassing many activities not generally thought of as manufacturing (e.g., food processing plants).

(b) May finance buildings (or additions/improvements thereto) and equipment (i.e., property of a character subject to the allowance for depreciation) and land; land component must be less than 25% of net proceeds of issue; equipment and buildings may be financed separately, i.e., equipment only or building only.

(c) May not finance working capital, inventory, motor vehicles required to be licensed by State, raw materials, small tools, supplies, or accounts receivable.

(d) Acquisition of existing building may be financed only if an amount equal to at least 15% of the cost of acquisition of the building (and equipment therein) is spent within two years for "rehabilitation"; cost of "rehabilitating" equipment (but not new equipment) counts toward total 15%; used equipment can only be financed in conjunction with financing the acquisition of the building in which the used equipment is located - i.e, must be part of an integrated facility.

(e) Stock acquisition may be treated as acquisition of underlying assets.

(f) Refinancing (or "refunding") of existing projects that were previously financed with IDBs is permitted even if the project is not of a type that would qualify under existing law for tax-exempt financing.

(g) <u>$10 million capital expenditure limitation</u> - the amount of the bond issue <u>plus</u> all other capital expenditures paid or incurred (within the same incorporated municipality as the project or located in the same county as the project outside of any incorporated municipality) by the Borrower and "related persons" during a six-year period commencing three years prior to the date of issuance of the bonds and ending three years after such date may be an amount up to, but not exceeding $10,000,000; provided, however, that if the principal amount of the bonds does not exceed $1,000,000, the $10 million capital expenditure limitation does not apply.

(h) $40 million limitation - aggregate amount of all outstanding IDBs cannot exceed $40 million.

(i) 95% of bond proceeds must be spent for "hard costs" -- land, building and equipment; the remaining 5% (i.e., "bad money") can be used to pay costs of issuance and other closing costs.

(j) Not more than 2% of proceeds may be used for "costs of issuance" - i.e., costs unique to bond financing (e.g., Bond Counsel fees, Underwriter and Underwriter's Counsel fees, Issuer and Issuer Counsel fees and Trustee acceptance fees).

(k) The balance of the 5% "bad money" can be used to pay closing costs that are not unique to bond financing - e.g., letter of credit and other bank imposed fees,

(l) Term of bonds -- average maturity of the bonds must not exceed 120% of average reasonably expected economic life of facilities being financed.

(m) Must receive allocation of volume cap.

(n) IRC § 148 imposes strict restrictions on investment of bond proceeds designed to insure that such investments do not produce a yield over the term of the bonds which is materially higher than the yield on the bonds.

2. Exempt Facility Bonds (IRC § 142)

(a) "Exempt facilities" include airports, docks and wharves, mass commuting facilities, facilities for the furnishing of water, sewage facilities, solid waste disposal facilities and qualified hazardous waste facilities.

(b) All of the restrictions/limitations described above for qualified small issue bonds apply equally to exempt facility bonds <u>except</u> for the $10 million capital expenditure limitation and the $40,000,000 limitation.

(c) With respect to facilities having both a solid waste disposal function and another function (e.g., manufacturing), that portion of the costs of the facility attributable to the solid waste disposal function can be financed with bond proceeds.

3. Qualified 501(c)(3) Bonds (IRC § 145) - IDBs where the Borrower/obligor is a validly organized and existing 501(c)(3) organization.

(a) Qualifying 501(c)(3) projects include hospitals, congregate care facilities, school facilities.

(b) The project purposes must be non-sectarian (e.g., although a church cannot be financed on a tax-exempt basis, a church-owned congregate care facility can, as can those portions of, for example, a catholic high school dedicated to non-sectarian uses, such as science buildings and gymnasiums.

(b) Qualified 501(c)(3) bonds do not require an allocation of volume cap.

4. Qualified Mortgage and Qualified Veteran's Mortgage Revenue Bonds (IRC § 143).

5. Qualified Student Loan Bonds (IRC § 144(b)).

6. Qualified Redevelopment Bonds (IRC § 144(c)).

b. Advantages of IDB Financing

1. Lower effective interest rate - interest rate differential between tax-exempt and similarly rated conventional corporate bonds has been as much as 400 basis points per annum in 1980's, usually 150-300 basis points depending on strength of underlying credit and principal amount of the bonds.

- weekly variable tax-exempt interest rate has averaged about 3.70-3.80% with strong letter of credit, currently at about 4%; letter of credit fee adds 75 to 125 basis points; remarketing fees, Trustee fees and letter of credit draw fees add 25-30 basis points; up front costs, amortized over life of bonds adds 10-25 points; total "all-in" rate currently about 5-5.75%, compared to conventional rates for Borrower's with strong credits of about 7-7.75% (based on 30-day LIBOR plus 150-200 basis points)

- additional 150-175 basis points for fixed rate bonds
- additional 175-200 basis points for taxable bonds and taxable corporate notes

2. Permits 100%+ financing and provides a complete financing package (i.e, a single bond issue can be used to finance costs of land, construction of buildings and acquisition and installation of equipment, as well as to cover most if not all costs of issuing the bonds, effectively spreading such costs over the life of the bonds).

3. Allows Borrower greater flexibility in negotiating general terms of the financing - e.g., interest rate modes, maturity dates (generally, longer terms than for conventional financing), repayment schedules and prepayment options, and often times less restrictive negative covenants than are available with conventional financing. For example:

- May be fixed or variable interest rate
- A variable interest rate may "float" in various modes. For example, Borrower may have ability to choose an initial "weekly" interest rate mode and then convert back and forth between a monthly, quarterly, semi-annual, annual, three-year, five-year, ten year or fixed rate. An issue with various modes is usually called a "multi-modal lower floater". Bondholders have "puts" or "tender" options each time the interest rate is adjusted within a mode or upon conversion to a different mode. Upon exercise of a put option, the bonds are tendered to and remarket by a remarketing agent.

- Principal repayment can be level principal amortization, ascending amortization, or bullet (balloon) with entire principal balance due at end of term, in each case with optional redemption provisions, allowing the obligor to prepay the Bonds (sometimes at a premium).
- Maturity may be virtually any length desired, within state law limitations and Internal Revenue Code parameters discussed below; Ohio law permits 30-year term.

4. Enables the Borrower to develop a positive working relationship with municipal officials, often times beneficial for future Borrower/municipality dealings.

c. <u>Disadvantages of IDB Financing</u>

1. Unavailability of volume cap (however, in many situations it makes economic sense for the Borrower to finance the Project with taxable IDBs that, by their terms, are convertible to tax-exempt IDBs upon later receipt of volume cap).
2. Relatively high costs of financing (however, as discussed above, such costs will be spread over the life of the bonds to the extent paid with bond proceeds); costs to finance vary with size, structure and complexity of issue from 1 1/2% to 2 1/2%; project should be at least $700,000 - $1,000,000 to be economically feasible
3. The process can be time consuming and complicated (however, Bond Counsel and/or Underwriter will generally see to it that

Borrower experiences little if any additional aggravation and can generally complete the entire process within 90 days.

4. More paperwork than Borrower would normally expect to see.

5. Prevailing wage rates must be paid to workers for construction projects in Ohio and certain other states.

III. Participants in IDB Financing

a. Borrower/Obligor (and Borrower's Counsel). The eligible participant which is to benefit from the financing; usually, but not always, the principal user of the facility to be financed. Borrower's Counsel plays an important role in:

1. Recognizing opportunity for IDB financing;

2. Assisting Borrower in negotiating security/collateral requirements to be imposed by Letter of Credit Bank and review of bank documents (Reimbursement Agreement and, when required by the Letter of Credit Bank, mortgage, guaranties, assignment of rents, security agreements, financing statements and other security documents);

3. Reviewing bond documents (Trust Indenture, Loan/Lease Agreement, Bond Purchase Agreement and Tax Regulatory Agreement, and, with "put" IDBs, Remarketing Agreement and Tender Agreement). With respect to document review, focus particularly on applicable financial and other covenants, bond terms (including call/prepayment provisions and premiums, amortization/sinking fund requirements and interest rate modes and determination), provisions relating to removal/substitution of Trustee and Remarketing Agent, remarketing mechanisms (if "put" bonds), and the opinion to be delivered by Borrower's Counsel.

b. Issuer (and Issuer's Counsel). The state, county, city, township or other governmental unit or public agency authorized by statute to issue IDB. Upon issuing IDBs, the Issuer assigns its rights under Loan Agreement and promissory note of Borrower, if any, to the Trustee, thereby effectively disappearing from the transaction after "lending its name" in order that interest will be tax exempt - hence the reference to "conduit financing."

c. Underwriter/Placement Agent (and Underwriter's/Placement Agent's Counsel). An investment banking firm or financial institution that works closely with the Borrower and the Letter of Credit Bank to structure the financing and that either ultimately purchases the bonds for re-sale to the public (in the case of an underwriter) or privately places the bonds (in the case of a placement agent). Regarding the sale of bonds:

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4. Issuer enters into Trust Indenture with corporate trustee which holds and disburses bond proceeds to Borrower. Issuer assigns note, if any, of Borrower to Trustee and also assigns its rights under Loan Agreement - by so doing, Issuer has effectively disappeared from the transaction after "lending its name" in order that interest will be tax-exempt. Transaction at this point closely resembles a conventional loan. Called a "conduit" financing because governmental unit acts as a conduit.

5. Borrower enters into Reimbursement Agreement with Letter of Credit Bank, pursuant to which Bank agrees to issue its Letter of Credit in favor of the Trustee and the Borrower agrees to reimburse Bank for draws on the Letter of Credit.

6. Borrower enters into Remarketing Agreement with Underwriter, acting in the capacity of Remarketing Agent, pursuant to which Remarketing Agent agrees to remarket "put" bonds that have been properly tendered by the Bondholders.

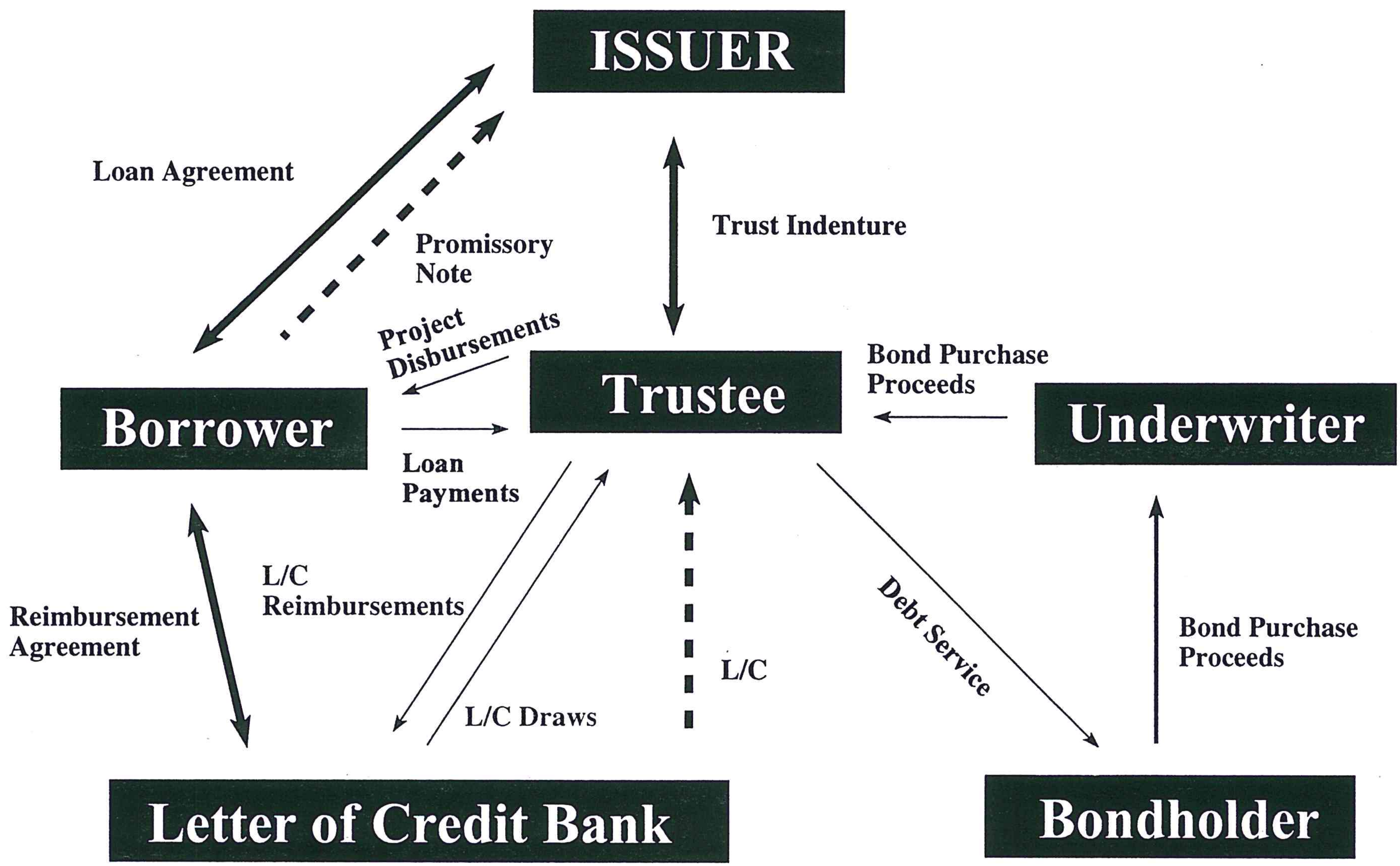
7. Borrower, Issuer and Trustee enter into Tax Regulatory Agreement pursuant to which each party obligates itself to comply with various tax requirements for ensuring that the bonds remain tax-exempt.

e. Public Hearing. Federal tax law requires that the general public have the right to comment on the proposed IDB financing at a public hearing; notice of the public hearing must be published at least 14 days prior to the hearing.

f. <u>Approving Bond Resolution/Ordinance</u>. Issuer adopts final resolution/ordinance approving the bond documents, which resolution/ordinance sets forth the terms and conditions of the bonds and their sale, and authorizes issuance of the bonds for the specified purpose and the loan of the bond proceeds (or the lease of the project facilities, where appropriate) to the Borrower.

g. <u>Bond Counsel's Approving Opinion Delivered and IDBs Issued</u>. Upon release by Bond Counsel of opinion as to the validity of the issuance of the bonds and their tax-exempt status and, in credit enhanced deals, by the Letter of Credit Bank of the Letter of Credit, the IDBs are sold and the proceeds therefrom, less any amounts paid towards costs of issuance and other closing costs, are deposited with the Trustee for eventual disbursement to and use by the Borrower to pay costs of the project.

h. <u>Post-Closing Matters</u>. Bond Counsel prepares and submits any reports required to be submitted to the Internal Revenue Service (i.e., Form 8038), the state agency responsible for allocating volume cap (e.g., Notice of Issuance) and other state agencies as required; Underwriter's Counsel delivers final Official Statement; Trustee disburses bond proceeds as requested from time to time by Borrower; Borrower makes loan payments to Trustee and Trustee makes principal, premium, if any, and interest payments to Bondholders.



TYPICAL BANK ENHANCED IDB STRUCTURE

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July 22, 2000

To: Warrick County Council Members

From: Bond Counsel

Re: $1,500,000 County of Warrick, Indiana Variable Rate Demand Industrial Development Revenue Bonds, Series 2000 (Spectronics, Inc. Project)

Gentlemen:

As you are aware, the Ordinance in connection with the captioned Bonds is on the agenda for the August 1, 2000 County Council meeting. In order to assist you in your consideration of that Ordinance, attached hereto for your review are the following items:

1. A draft of the Ordinance;
2. An outline entitled Tax-Exempt Financing; and
3. A diagram illustrating the relationships of the various parties and flow of funds in a bond transaction.

The Tax-Exempt Financing outline is a summary of, among other things, the pros and cons of financing economic development facilities through the issuance of bonds, the impact of bond issues on the issuer of the bonds, the different parties that participate in a bond issue and the mechanics involved in issuing bonds. Although this outline was not prepared specifically for the captioned Project and does not provide specifics as to Indiana law (and, consequently, should not be relied upon to the exclusion of advice from your counsel), you may find it helpful as a tool for better familiarizing yourself with the concepts involved.

Best regards,

Timothy L. Coyle

Attachments
Copy: Larry Grimes, Esq.